

Expect to pay more for insurance

Insurance Commissioner Steve Poizner will most likely change other rates, most notably a formula allowing insurance companies to work profits into their rates.

By Thomas Elias

[Long Beach Press Telegram](#): Change is coming to the way California's insurance rates are set, but chances are most homeowners and car and truck owners won't notice anything until they see the bills issued at policy renewal time.

As he gears up to run for governor next year, Republican state Insurance Commissioner Steve Poizner is altering some rules laid down in 2006 by his predecessor, Democrat John Garamendi, during his last few days as the previous commissioner.

Those rules aimed to make reality of some mandates of Proposition 103. That was the 1988 initiative which rolled back insurance rates in California, made the insurance commissioner a powerful elected official and not an appointee of the governor, and have saved Californians more than \$60 billion over the last 20 years, compared with what other Americans paid for similar insurance during that time.

One rule set down by Garamendi, who will also be running for governor next year: Make a driver's geographic location far less important in setting car and truck insurance premiums than his or her driving record and the distances driven.

Poizner says he'll never change that rule, which is required by Proposition 103, but took 18 years to become reality.

But he will most likely change others, most notably a formula allowing insurance companies to work profits into their rates. Right now, they can make 6 percent additional profit on whatever surplus they collect beyond the funds they must always have on hand to settle potential claims.

Insurance companies want much more, and Poizner will likely give it to them. "The formula Garamendi set now produces a lower dollar amount than it used to, because of the recession and other factors," Poizner said in an interview. "I've asked for feedback from consumer groups and the companies on what the formula should be, but no decisions have yet been made on that."

But change will come; the only question is how big. Poizner insists that his only motive in allowing higher profits is to keep the 200-plus companies now selling insurance in California solvent.

"I have nothing to gain if rates go up," said the billionaire former Silicon Valley software entrepreneur. "But by the time they're done, the companies will pay out several billion dollars for claims on last fall's wildfires, on top of about \$2 billion for fire damages in 2007. Drought conditions have made matters worse not only for the homeowners, but also for the insurers. The one thing I don't want to see happen on my watch is for anyone to file a legitimate claim and have it not paid because their insurance company is bankrupt."

Poizner says wildfire costs were the main reasons he approved rate increases for both the State Farm and Farmers insurance companies late last year.

None of this sits well with Garamendi, who objected to the adoption of some new car insurance pricing rules last spring, a move Poizner said was dictated by the timing of Garamendi's own move to eliminate geography as a prime pricing factor.

"I am more than disappointed; I am alarmed," Garamendi wrote Poizner a few months ago.

More recently insurance industry critic Harvey Rosenfield, author of Proposition 103, questioned some of what Poizner is doing. "The tentative changes I've seen would let the insurance companies estimate their future losses and also let them choose which years to include as the basis for that," he said. "It's basically deregulation."

Not so, says Poizner, who insists he intends to keep most of Garamendi's rules. "I want to make

things less ambiguous and eliminate some errors my predecessor made," he said. "I want to add some freedom so consumers have more choice and insurance companies have more ways to sell insurance. Some will want to sell only over the Internet to save costs, others will want their own agents and some will want to use general agents.

"The two things I want to be sure of are that the rates are neither excessive nor inadequate. They have to be high enough to cover the companies' costs and low enough to protect consumers."

The ultimate translation of all this: Insurance rates will likely be going up in the next year or so for most Californians, like it or not. But Poizner is on notice that if he gives away too many customer dollars, he'll hear plenty about it in next year's campaign for governor.